

Schedule M-3

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Purpose of Schedule M-3

- Increase Transparency
- Use as Risk Assessment Tool
 - Return Selection/De-selection
 - Focus on high risk issues, emerging issues, etc.
- Improve Cycle Time/Increase Currency
- Reduce Overall Taxpayer Burden

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What We've Seen So Far

- Significant Non-Compliance
- Significant Errors in Compliance
 - Part I, line 4
 - Missing Supporting Schedules
 - Not “separately stated and adequately disclosed”
 - Amounts netted
 - Permanent vs. Temporary

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Excuses for Errors

- Misinterpretation of Instructions
- Software
- Professional Advice
- Taxpayer prepared vs. paid preparer
- Large companies vs Small companies

What does this mean?

- Return selection
- Time on audit
- Penalties

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Changes for 2006

- Changes for “Mixed Group”
 - Check boxes on pages 1, 2, and 3
 - Part I, line 10, other adjustments
 - Part II roll up lines
- Form 8916 and 8916-A

New Schedule M-3s

- Tax years ending on or after 12/31/2006
 - Form 1120S
 - Form 1120PC
 - Form 1120L
 - Form 1065

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Criteria for New M-3s

- Forms 1120S, 1120PC, 1120L
 - \$10 million or more in assets
- Form 1065
 - Total assets of \$10 million or more, or
 - Adjusted total assets of \$10 million or more, or
 - Total receipts of \$35 million or more, or
 - Reportable Entity Partner

Changes for 2007

- Hierarchy of Financial Statements
- Additional Exceptions for Cost of Goods Sold
- Form 1065 only
 - Reconciliation of Schedules
 - Guaranteed Payments

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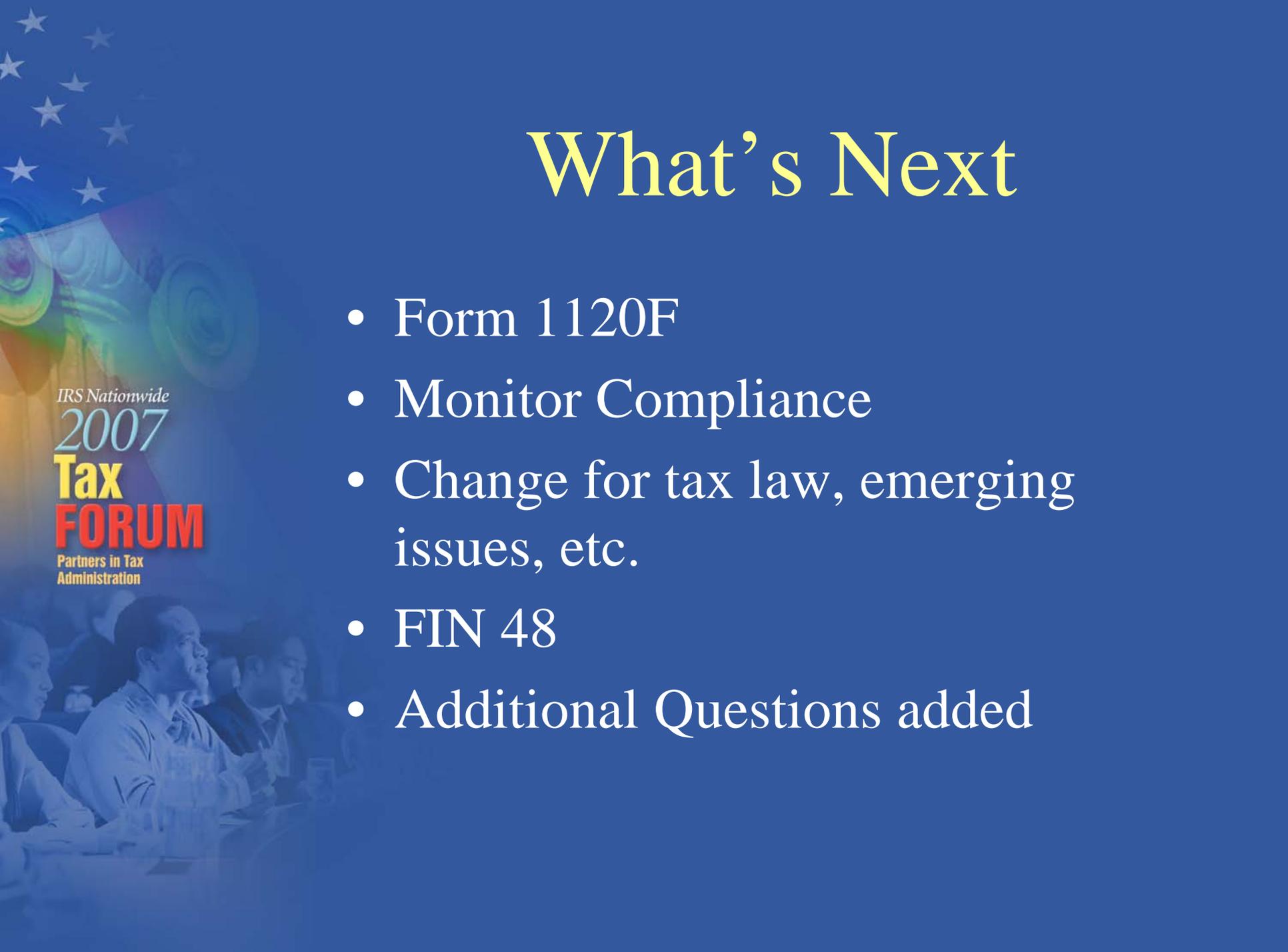
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What's Next

- Form 1120F
- Monitor Compliance
- Change for tax law, emerging issues, etc.
- FIN 48
- Additional Questions added



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Resources



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Questions

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